

1 **Q. WHAT ARE YOUR DUTIES WITH SCE&G?**

2 A. As Senior Vice President and Chief Financial Officer of SCE&G, I have
3 responsibility for monitoring the Company's present and prospective financial
4 condition; for formulating strategies to ensure that the Company can meet its
5 capital requirements at the lowest reasonable cost; and for managing all
6 accounting and financial matters related to the Company. In that regard, I meet
7 regularly with members of the financial community, including the Wall Street
8 analysts and credit rating agency personnel who follow the electric utility industry
9 in general and SCE&G specifically. In these meetings, we discuss their
10 perceptions and concerns about the Company, its financial and business position,
11 its capital plans, the capital markets and the utility industry generally. We also
12 discuss the various risk factors that the Company faces as seen by investors. I am
13 also regularly involved in discussions of investors' perspectives on the Company
14 with underwriters and other experts as such views pertain to the issuance or
15 refinancing of debt and the issuance of new common stock.

16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. The purpose of my rebuttal testimony is to address the recommendations
18 made in the prefiled testimony of Mr. Kevin O'Donnell, witness for the South
19 Carolina Energy Users Committee ("SCEUC"), and Mr. Randy Watts, witness for
20 the Office of Regulatory Staff ("ORS"), that SCE&G's under-collected balance of
21 fuel costs of approximately \$111,852,847 be spread over three years instead of the
22 two year recovery period recommended by the Company. Additionally, I address

1 the recommendations that the interest rate on the uncollected balance be set at an
2 amount equivalent to the one-year Treasury Bill or three-year United States
3 Treasury Note rates. Finally, I also address the ORS's recommendation that
4 SCE&G's SO₂ emission allowance account balance of \$14,081,647 be used to
5 reduce the Environmental Component of SCE&G's proposed Total Fuel Factor.

6 **Q. ORS AND SCEUC RECOMMEND THAT SCE&G SHOULD DEFER**
7 **RECOVERY OF ITS UNDER-COLLECTED BALANCE FOR THREE**
8 **YEARS INSTEAD OF THE TWO YEARS PROPOSED BY THE**
9 **COMPANY. WHAT IS SCE&G'S POSITION ON THIS**
10 **RECOMMENDATION?**

11 A. The Company's position is that, absent an agreement by the Company to
12 the contrary, the fuel clause statute requires that the fuel factor be set to recover
13 the full amount of SCE&G's fuel costs. Specifically, §58-27-865 requires the
14 Commission to set the factor at "an amount designated to recover, through the
15 succeeding 12-months, the fuel cost determined by the Commission to be
16 appropriate for that period, adjusted for the over-recovery or under-recovery from
17 the preceding 12-month period." S.C. Code Ann. §58-27-865(b). Thus, SCE&G
18 believes that, absent agreement by the Company to defer the full recovery of its
19 costs, this statute does not allow the recovery factor to be set at a level that
20 deliberately requires the Company in the next succeeding fuel year to collect less
21 than the full amount of forecasted fuel costs and adjusted for its current under- or
22 over-collection balance.

1 Notwithstanding this official position, the Company indicated in its direct
2 testimony that it was agreeable to deferring recovery of approximately
3 \$55,926,424 in base fuel cost until its next fuel proceeding, conditioned upon
4 recovery of carrying cost calculated on the deferred amount at the ten-year U.S.
5 Government Treasury Note rate, as reported in the Wall Street Journal, plus an all-
6 in spread of 65 basis points. The Company further agreed to cap its total carrying
7 cost at a rate of 6%.

8 These are the terms that the Company believes to be reasonable and
9 necessary to secure its agreement to defer for one year 50% of the under-collected
10 balance of approximately \$112 million.

11 Moreover, there is justification for the Company's insistence upon these
12 terms. We believe this position best serves both the financial health of the Company
13 and the long-term interests of our customers. During these uncertain times delaying
14 recovery of the full amount of SCE&G's fuel cost beyond the two years proposed by
15 SCE&G could adversely impact the Company's credit profile and increase the
16 market's perception of the risk involved in investing in the Company. When the
17 market perceives that a company faces increased risks, then the cost of future
18 financings or refinancings are generally more expensive. The customers ultimately
19 bear the burden of this increased cost.

20 **Q. SCE&G HAS PREVIOUSLY AGREED TO DEFER THE RECOVERY OF**
21 **AN UNCOLLECTED BALANCE BEYOND ONE YEAR. DO THESE PAST**
22 **ACTIONS AMOUNT TO A PRECEDENT AND IS SCE&G WILLING TO**

**EXTEND THE UNDER-COLLECTION PERIOD BY ONE ADDITIONAL
YEAR AS RECOMMENDED BY ORS AND SCEUC?**

A. I am aware of the past history, and know that the documents memorializing those agreements have clauses that make it clear that no precedent is to be drawn from SCE&G's agreement to extend the recovery of uncollected balances beyond one year. I also note that in 2006 the amount that was being deferred was approximately \$19 million; the amount we are being asked to defer in this case is approximately \$75 million, a substantially greater sum with significant carrying cost implications. In light of these considerations, the Company believes that its proposal to defer 50% of the under-recovered balance for one year is appropriate and fair in recognition of the current economic recession.

It should not go unnoticed that the Company is now carrying the under-collected balance without any carrying charges. And the Company will also carry without any carrying charges the amount of the under-collected balance scheduled to be recovered in the period of May 2009 through April 2010. Therefore, the carrying charges on all deferred amounts must be sufficient to signal the investment community that these deferred amounts will not adversely impact the Company's earnings. Thus, any amounts deferred beyond one year would have to protect fully SCE&G's financial interests during the time of the deferral and clearly signal this fact to the investment community and the credit rating agencies. We believe the recommendations of a carrying cost rate equivalent to either the one-year Treasury Bill or the three-year Treasury Note rates to be inadequate and

1 are concerned that such rates may be viewed as inadequate by credit agencies and
2 the investment community. It is not in the best interest of the Company or its
3 customers for the investment community to have concerns that the Company may
4 not fully recover its fuel costs, including carrying costs associated with under-
5 collected balances.

6 Therefore, in order to secure SCE&G's agreement to a three-year recovery
7 plan, the Company proposes a two-tier approach to recovering its carrying costs.
8 First, the amounts to be deferred in the first and second years would accrue
9 interests equal to the ten-year Treasury Note rate plus an all-in spread of 65 basis
10 points until fully collected or the last billing cycle in April 2011. This carrying
11 charge rate has been previously approved by the Commission in Docket No. 2006-
12 2-E, but I acknowledge that this approval is not precedential in this case. Second,
13 for the amount to be deferred and collected in the third year, the Company
14 requests that the Commission allow interest on such amount at SCE&G's 8.78%
15 weighted-average cost of capital from the period beginning May 2011 until the
16 entire sum is collected. The table below shows the Company's requirements for a
17 three-year recovery period of the under-collected balance.

1

Company Proposal for 3 Year Recovery of Under-collected Balance				
Year	Time Period	Estimated Amount to be Collected	Deferred Balance (subject to Carrying Cost)	Carrying Cost Rate
1	May 2009 - April 2010	\$37,284,282.33	\$74,568,564.67 or less	10-Year Treasury Note plus 65 basis points
2	May 2010 - April 2011	\$37,284,282.33	\$74,568,564.66 to \$37,284,282.33	10-Year Treasury Note plus 65 basis points
3	May 2011 - April 2012	\$37,284,282.34	\$37,284,282.34 to \$0.00	Weighted Average Cost of Capital at 8.78%

2

3

4

5

6

7

8

9

10

11

12

13

Q. HAVE YOU REVIEWED ORS WITNESS WATTS' RECOMMENDATION FOUND ON PAGE 8, LINE 3 OF HIS DIRECT TESTIMONY RELATING TO THE COMPANY'S SO₂ ACCOUNT BALANCE?

14

15

16

17

A. Yes. SCE&G accounts for gains realized on SO₂ emission allowances associated with intersystem or "off-system" sales. These funds are then used to purchase Environmental Protection Agency ("EPA") SO₂ emission allowances as needed by the Company throughout the year. As of December 31, 2008, the

1 balance in this account was \$14,081,647. Mr. Watts recommends that the funds in
2 this account be used to offset the Company's retail cumulative environmental fuel
3 cost account balance in an effort to help mitigate the proposed increase in this
4 case.

5 **Q. DO YOU AGREE WITH MR. WATTS' RECOMMENDATION IN THIS**
6 **REGARD?**

7 A. While we recognize Mr. Watts' rationale in reaching this recommendation,
8 the Company respectfully disagrees with this proposal. In support of this
9 recommendation, Mr. Watts states that the installation of scrubbers at both the
10 Wateree and Williams Stations should significantly reduce SCE&G's need to
11 purchase SO₂ allowances in the future. First, I note the scrubbers described by
12 Mr. Watts are not scheduled to be in commercial operation until January 2010.
13 Second, Mr. Watts' recommendation assumes that the regulatory requirements and
14 costs associated with environmental emissions will remain static. Given the long-
15 standing history of consistent increases in environmental controls and emission
16 standards and based upon indications from the current Presidential administration
17 that additional environmental restrictions are needed, I believe that relying upon
18 such an assumption at this early stage of a new administration is not practical.
19 Because the effect of future environmental costs are uncertain, it is the Company's
20 belief that the funds in the SO₂ account should be maintained for their original
21 purpose of purchasing EPA SO₂ emission allowances. After the new equipment at
22 Wateree and Williams Stations is on line, fully tested and functioning as designed

1 and if environmental regulation and costs do not significantly increase, further
2 analysis of this issue may be warranted in the Company's future fuel proceedings.
3 Given the present uncertainty surrounding this matter, however, SCE&G would
4 request that the Commission decline to adopt ORS's recommendation in this
5 regard at this time.

6 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

7 A. Yes, it does.